

Carolina ABC Board

(A component unit of Carolina Government)

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Management's Discussion and Analysis

This section of the Alcoholic Beverage Control (ABC) Board's (*the Board*) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, XXX4. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The Board opened one new location during the year.
- Working capital increased approximately X% over the prior year.
- Over X% of profits were expended for law enforcement in the current year.

Overview of the Financial Statements

The audited financial statements of the ABC Board consist of 3 components. They are as follows:

- *Management's Discussion and Analysis*
- *Basic Financial Statements*
- *Additional Information Required by the ABC Commission*

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of 3 statements. The first statement is the statement of net assets. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the statement of revenues, expenses, and changes in net assets. This statement is used in evaluating whether the Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

The final required statement is the statement of cash flows. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, the uses of cash, and the change in cash.

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements.

The ABC Commission requires some schedules in addition to the information required by generally accepted accounting principles. They include a Schedule of Store Expenses, a Schedule of Administrative Expenses, and a Schedule of Warehouse Expenses.

Financial Analysis of the ABC Board

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$XXX in XXX4. The largest component of net assets was the investment in capital assets. It was X% of the total net assets. Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets

	6/30/X4	6/30/X3	\$ Change	% Change
Current assets	\$ XXX	\$ XXX	\$ XXX	X%
Non-current assets	XXX	XXX	XXX	X%
Total assets	XXX	XXX	XXX	X%
Current liabilities	XXX	XXX	XXX	X%
Non-current liabilities	XXX	XXX	XXX	X%
Total liabilities	XXX	XXX	XXX	X%
Invested in capital assets, net of related debt	XXX	XXX	XXX	X%
Restricted net assets	XXX	XXX	XXX	X%
Unrestricted net assets	XXX	XXX	XXX	X%
Total net assets	XXX	XXX	XXX	X%

Note that non-current assets and liabilities increased during the year. This was the result of the addition of a building for a new location. The building is being financed with a lease-purchase arrangement through the North Carolina Municipal Leasing Corporation. The XX% decrease in net assets was due to an increase in the contributions to the law enforcement division.

Net assets decreased by X% from the prior year. Income from operations increased by X% from the prior year. Following is a summary of the changes in net assets:

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	6/30/X4	6/30/X3	\$ Change	% Change
Operating revenues	\$ XXX	\$ XXX	\$ XXX	X%
Less: Taxes on gross sales	XXX	XXX	XXX	X%
Net sales	XXX	XXX	XXX	X%
Cost of sales	XXX	XXX	XXX	X%
Gross profit	XXX	XXX	XXX	X%
Less: Operating expenses	XXX	XXX	XXX	X%
Income from operations	XXX	XXX	XXX	X%
Nonoperating revenues and expenses	XXX	XXX	XXX	X%
Change in net assets before distributions	XXX	XXX	XXX	X%
Distributions	XXX	XXX	XXX	X%
Change in net assets	XXX	XXX	XXX	X%
Net assets, beginning	XXX	XXX	XXX	X%
Net assets, ending	XXX	XXX	XXX	X%

The increase in sales is due to the addition of the new location. There is also a corresponding increase in expenses for operations of the new facility. The increase in distributions was due to the increase in contributions to the law enforcement division.

Following is a breakdown of sales by source:

	<u>6-30-04</u>	<u>6-30-03</u>	<u>\$ Change</u>	<u>% Change</u>
Retail Liquor Sales	\$ X,XXX	\$ X,XXX	\$ X,XXX	X.X%
Mixed Beverage Sales	X,XXX	XXX	XXX	X.X
Retail Wine Sales	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	.X
Total Sales	\$ X,XXX	\$ X,XXX	\$X,XXX	.X%

The percentage of mixed beverage sales to the total increased by X% over the prior year.

Capital Asset and Debt Administration

Capital Assets

Capital assets increased by X% from the prior year.

Table 3
Summary of Changes in Capital Assets

	6/30/X4	6/30/X3	\$ Change	% Change
Buildings	\$ XXX	\$ XXX	\$ XXX	X%
Building improvements	XXX	XXX	XXX	X%
Store equipment	XXX	XXX	XXX	X%
Warehouse equipment	XXX	XXX	XXX	X%
Law enforcement equipment	XXX	XXX	XXX	X%
Motor vehicles	XXX	XXX	XXX	X%
Total				

The overall increase in property, plant, and equipment is due to the opening of a new location. In addition, the Board purchased a Local Area Network (LAN). The installment of this new system has increased efficiency in financial reporting and in inventory management among the different locations.

Debt Administration

The largest component of long-term debt is notes payable. It increased by X% from the prior year.

Table 4
Summary of Changes in Long-term Debt

	6/30/X4	6/30/X3	\$ Change	% Change
Notes payable	\$ XXX	\$ XXX	\$ XXX	X%
Capital leases	XXX	XXX	XXX	X%
Total	XXX	XXX	XXX	X%

You will see that the increase in notes payable was due to the fact that the LAN was financed with a note payable over X years at an interest rate of X%. The change in capital leases was minimal because the Board retired X capital leases on existing buildings while incurring a new lease for the new facility.

Economic Factors

The Board plans to address the explosive growth in the area by opening two new locations in the upcoming fiscal year. In light of falling interest rates, the Board also plans to refinance X of the building leases in the upcoming year.

Requests for Information

This report is intended to provide a summary of the financial condition of the ABC Board. Questions or requests for additional information should be addressed to:

Name, Finance Officer
ABC Board
Address
City State Zip Code

Independent Auditor's Report

Board of Directors
ABC Board

We have audited the accompanying financial statements of the ABC Board, a component unit of the ABC Government, as of June 30, XXX4 and XXX3 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the ABC Board management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America¹. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the ABC Board as of June 30, XXX4 and XXX3 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America¹.

As described in Note 1 to the financial statements, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, XXX4. This results in a change in the format and content of the financial statements.²

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

¹ The phrase "in the United States of America" is added in accordance with SAS No. 93, *Omnibus Statement on Auditing Standards – 2000*, issued October 2000. The basic elements of the independent auditor's letter should now include the county of origin for (a) the auditing standards used in performing the audit and (b) the accounting principles used to prepare the financial statement. SAS No. 93 is applicable for audits issued on or after June 30, 2001.

² This paragraph should be inserted in the first year of implementation of GASBS No. 34 and removed in subsequent years.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Firm Name

Date

ABC Board
(A component unit of ABC Government)
Statement of Net Assets
as of June 30, XXX4
and June 30, XXX3

<u>Assets</u>	<u>XXX4</u>	<u>XXX3</u>
Current Assets		
Cash and Cash Equivalents		
Investments		
Accounts Receivable (net)		
Inventories		
Prepaid Expenses		
Total Current Assets		
Non-current Assets		
Property Plant and Equipment		
(net of accumulated depreciation)		
Total Net Amount		
<u>Total Assets</u>		
<u>Liabilities</u>		
Current Liabilities		
Current Portion of Long-term Debt		
Accounts Payable		
Liquor Sales Tax Payable		
Payroll Taxes Payable		
Accrued Liabilities		
Distributions Payable		
Total Current Liabilities		
Non-current Liabilities		
Note Payable Less Current		
<u>Total Liabilities</u>		
<u>Net Assets</u>		
Invested in capital assets, net of related debt		
Restricted for:		
Law enforcement		
Capital improvements		
Working capital		
Unrestricted		
<u>Total Net Assets</u>		
TOTAL LIABILITIES & NET ASSETS		

The accompanying notes are an integral part of the financial statements.

ABC Board
(A component unit of ABC Government)
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, XXX4
and June 30, XXX3

	<u>XXX4</u>	<u>XXX3</u>
<u>Operating Revenue</u>		
Liquor Sales - Regular		
Mixed Beverage Sales		
Wine Sales		
Total Gross Sales		
<u>Deduct Taxes on Gross Sales</u>		
State Excise Tax		
Mixed Beverage Tax (Revenue)		
Mixed Beverage Tax (Human Resources)		
Rehabilitation Tax		
Wine Sales Tax		
Total Taxes		
<u>Net Sales</u>		
<u>Deduct Cost of Sales</u>		
Cost of Liquor Sold		
Cost of Wine Sold		
<u>Gross Profit on Sales</u>		
<u>Deduct Operating Expenses</u>		
Store Expenses		
Warehouse and Delivery Expenses		
Administrative Expenses		
Depreciation Expenses		
Total Operating Expenses		
<u>Income From Operations</u>		

The accompanying notes are an integral part of the financial statements.

ABC Board
(A component unit of ABC Government)
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, XXX4
and June 30, XXX3

XXX4 XXX3

Nonoperating Revenues and Expenses

Interest Income
Other Income (Identify)
Other Expenses (Identify)

Total Nonoperating Revenues (Expenses)

Change in Net Assets Before Distributions

Deduct

Law Enforcement
Alcohol Education

Change in Net Assets Before Profit Distributions

Profit Distributions

Municipality
County
Other (Identify)
Total Profit Distributions

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

The accompanying notes are an integral part of the financial statements.

ABC Board
(A component unit of ABC Government)
Statement of Cash Flows
For the Years Ended June 30, XXX4
and June 30, XXX3

	<u>XXX4</u>	<u>XXX3</u>
Cash flows from operating activities:		
Cash received from customers		
Payments for inventory costs		
Payments for operating expenses		
Taxes paid		
Other operating expenses		
 Net cash provided (used) by operating activities		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		
Proceeds from the sale of assets		
Principal paid on loan maturities and equipment contracts		
Interest paid on loans and contracts		
 Net cash provided (used) by capital and related financing activities		
 Cash flows from non-capital financing activities:		
Law enforcement distributions		
Alcohol education distributions		
Profit distributions to primary government		
 Net cash provided (used) by non-capital financing activities		
 Cash flows from investing Activities:		
Interest earned on investments		
Investments purchased		
Investments redeemed or matured		
 Net cash provided (used) by investing activities		
 Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year		
Cash and cash equivalents, end of year		

(A component unit of ABC Government)
Statement of Cash Flows
For the Years Ended June 30, XXX4
and June 30, XXX3

Reconciliation of income from operations to net cash provided (used) by operating activities:	<u>XXX4</u>	<u>XXX3</u>
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Income (loss) from operations

Adjustments to reconcile income from operations
to net cash provided (used) by operating activities:

Depreciation

Changes in assets and liabilities:

(Increase) decrease in accounts receivable

(Increase) decrease in inventory

Decrease in prepaid expenses

Increase (decrease) in accounts payable

Decrease in accrued liabilities

Total adjustments

Net cash provided (used) by operating activities

Noncash investing financing activities:

(Example)

Shortly before the statement of net assets date, the ABC board entered into a capital lease agreement to purchase office equipment costing \$7,500. No down payment and no monthly installments were made before year-end.

The accompanying notes are an integral part of the financial statements.

ABC Board
(A component unit of ABC Government)
Notes to the Financial Statements
June 30, XXX4

Note 1. Summary of Significant Accounting Policies

A. Principles used in determining the scope of the entity for financial reporting:

The ABC Board, a component unit of the county [city], is a corporate body with powers outlined by General Statutes [Chapter 18B-701.] The county's [city's] governing body appoints the ABC Board.

The ABC Board is required by State Statute to distribute its surpluses to the general fund of the county [city], which represents a financial benefit to the county [city]. Therefore, the ABC Board is reported as a discretely presented component unit in the county's [city's] financial statements.

B. Organizational History

The board was organized under the provisions of Session Law XXX of the North Carolina Legislature, General Assembly of XXXX, March X, XXXX, and implemented by a county wide (city wide) election held November X, XXXX. The city council appointed three individuals to serve on the ABC Board with terms of three years, two years and one year.

The ABC Board, as provided by North Carolina Alcoholic Beverage Control laws, operates two liquor stores and through its law enforcement division, investigates violations of such laws. North Carolina General Statute [18B-805(c)(2)(3)] requires that the ABC Board expend at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes.

(Note to preparer: The 7% for alcohol education may not apply to those boards whose local enabling act sets a different distribution.)

C. Basis of Presentation

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues

earned, expenses incurred, and/or the change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net assets date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

The Board has implemented GASB Statement No. 34, *Basis Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and related standards. These new standards provide for significant changes in terminology and for the inclusion of Management’s Discussion and Analysis as required supplementary information.

E. Assets, Liabilities, and Net Assets

(1) Deposits

All deposits of the ABC Board are made in board-designated official depositories and are collateralized as required by State law [G.S. 159-31]. The ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the ABC Board may establish Time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

All the ABC Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the ABC Board's agent in the ABC Board's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the ABC Board, these deposits are considered to be held by the ABC Board agent in the ABC Board's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the ABC Board or the escrow agent. Because of the inability to measure the exact amount of collateral pledged

for the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, XXX4, the ABC Board's deposits had a carrying amount of \$X,XXX and a bank balance of \$XX,XXX. All of the bank balance was covered by federal depository insurance

(Note to preparer: The method of collateralization should be clearly disclosed for bank balances over the federal depository insurance limits.)

(2) Investments

State law [G.S. 159-30(c)] authorizes the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) money market mutual fund.

The ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued based at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

(Note to preparer: State the policy for valuing investments that are currently reported. For example, if the ABC Board does not invest in the NCCMT's term portfolio, it is not recommended to include a disclosure about its valuation method.)

The ABC Board's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Column A includes investments that are insured or registered or for which the securities are held by the ABC Board or its agent in the ABC Board's name. Column B includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ABC Board's name. Column C includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the ABC Board's name. Investments in the North Carolina Capital Management Trust are exempt because the board does

not own any identifiable securities, but is a shareholder of a percentage of the fund.

	<u>A</u>	<u>B</u>	<u>C</u>	<u>Reported Value</u>	<u>Fair Value</u>
Repurchase Agreements	\$ --	\$ --	\$300,000	\$300,000	\$300,000
U.S. Government Securities	--	150,000	--	150,000	157,364
U.S. Government Agencies	300,000	--	--	300,000	318,246
	<u>\$300,000</u>	<u>\$150,000</u>	<u>\$300,000</u>	<u>\$750,000</u>	<u>\$775,610</u>

The ABC Board's repurchase agreements are not in compliance because they do not meet the requirements of State law [G.S. 159-30(c)(12)] The underlying security is held by the financial institution providing the transaction and is not in the ABC Board's name. Sweep accounts aren't legal if the funds aren't in the ABC board's name at all times.

(3) Cash and Cash Equivalents

For purposes of the statement of cash flows, the ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

(4) Accounts Receivable

The amounts shown on the statement of net assets for receivables is net of \$XX,XXX allowance for doubtful accounts.

(5) Inventories

Inventories are valued at the lower of cost (fifo) or market.

(6) Property Plant and Equipment

Property and equipment are stated at cost and are being depreciated over their useful lives on a straight-line basis as follows:

	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Buildings	20 yrs.			
Furniture/ Equipment	10 yrs.			
Vehicles	3-5 yrs.			
Leasehold improvements	10-20 yrs.			

Computer	3 yrs.
Etc.	-

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in the earnings for the period.

(7) Net Assets

Net assets consists of the following:

- a. Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- b. Restricted for law enforcement - This applies only when the ABC board employs its own ABC officer.
- c. Restricted for capital improvements - State law [G.S.18B-805(d)] requires approval of the appointing authority to establish this account.
- d. Restricted for working capital - North Carolina Alcoholic Beverage Control Commission Rule [.0902] defines working capital as the total of cash, investments and inventory less all unsecured liabilities. An ABC board shall set its working capital requirements at not less than two weeks' average gross sales of the last fiscal year or greater than four months' average gross sales of the last fiscal year. Average gross sales means gross receipts from the sale of alcoholic beverages less distributions required by State law [G.S. 18B-805(b), (2), (3), and (4)].
- e. Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

Note 2. Stewardship, Compliance and Accountability

Noncompliance with N. C. General Statutes

- A. The ABC Board is not making the quarterly distributions required by G.S. 18B-805(g). The Board will put policies and procedures in place to ensure that future distributions are made in a timely manner.
- B. The ABC Board's repurchase agreement violates the investment regulations of G.S. 159-30(c)(12). The security subject to repurchase is held by the financial institution providing the transaction and is not in the Board's name. The Board will establish a custodial agreement with a separate financial institution that will hold the security in the Board's name.

(Note to the preparer: A corrective action plan should be included for all violations.)

Note 3. Pension Plan Obligations

A. Local Government Employees' Retirement System

Plan Description. The ABC Board contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The ABC Board is required to contribute at an actuarially determined rate. The ABC Board's current rate for employees not engaged in law enforcement and for law enforcement officers is ____% and ____%, respectively, of annual covered payroll. The contribution requirements of members and of the ABC Board are established and may be amended by the North Carolina General Assembly. The ABC Board's contributions to LGERS for the years ended June 30, XXX4, XXX3, and XXW9 were \$_____, \$_____, and \$_____, respectively. The contributions made by the ABC Board equaled the required contributions for each year.

B. Law Enforcement Officers' Special Separation Allowance

(1) Plan Description.

The ABC Board administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the ABC Board’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S., Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the ABC Board are covered by the Separation Allowance. At December 31, XXX3, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	_____
Terminated plan members entitled to but not yet receiving benefits	_____
Active plan members	_____
Total	=====

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies:

Basis of Accounting. The ABC Board has chosen to fund the Separation Allowance on a pay as you go basis. The financial statements of the ABC Board are prepared using the accrual basis of accounting. Benefits are recognized as expenses when due and payable in accordance with the terms of the plan. Administration expenses are recognized as incurred.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

(3) Contributions.

The ABC Board is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to pay benefits and administration costs on a pay as you go basis. For the current year, the ABC Board paid benefits of \$_____, or ____% of annual covered payroll. There were no contributions made to the plan by employees. The ABC Board’s obligation to make these payments was established and may be amended by the North Carolina General Assembly.

The ABC Board has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

C. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The ABC Board contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the ABC Board. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the ABC Board to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, XXX4 were \$_____, which consisted of \$_____ from the ABC Board and \$_____ from the law enforcement officers.

D. Other Post-Employment Benefits

The Board has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The Board has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Board, the Board does not determine the number of eligible participants. For the fiscal year ended June 30, XXX4, the Board made contributions to the State for death benefits of \$_____. The Board's required contributions for employees not engaged in law enforcement and for law enforcement officers represented _____% and _____% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

Note 4. Commitments

The ABC Board has elected to pay direct costs of employment securities benefits in lieu of employment security taxes on payroll. A liability for benefit payments could accrue in the year following discharge of employees.

Note 5. Leases

The ABC Board had an operating lease for facilities at 13 West 1st Street, city name. The lease is a ten year lease expiring December 31, XXXX.

Lease Payment Schedule

XXX5	
XXX6	
XXX7	
XXX8	
XXX9 – XX12	
	Total

The ABC Board is responsible for utilities and insurance.

The ABC Board has leased the following equipment under capital leases:

Equipment
Store #1
Store #2

The following is a schedule of the future minimum lease payments under capital leases and the present value of the net minimum lease payments at June 30, XXX4:

XXX4
XXX5
Total minimum lease payments
Less amount representing interest
Present value of net minimum lease payments

Note 6. Related Party Transactions

(Disclose significant transactions with elected officials, employees, and related organizations. Disclosures should include the nature of the relationship, a description and dollar amounts of the transactions, amounts due to or from related parties, etc.)

Note 7. Subsequent Events

(Disclose events that occur between the end of the period covered by the financial statements and the statement issuance date that have a significant effect on the unit.)

Note 8. Vacation and Sick Leave Compensation

(Note: use the benefits here that the ABC board has adopted)

ABC board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, XXX4 amounted to approximately \$X,XXX. The current portion of the accumulated vacation pay is not considered to be material.

Employees can accumulate an unlimited amount of sick leave. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Note 9. Distributions of Income

The ABC Board has made distributions since inception as follows:

	<u>Current Year</u>	<u>Total to Date</u>
80% City of		
20% County		

State law [G.S.18B-805(e)] requires that the entire profit, after deducting amounts required for law enforcement and alcohol education and retaining proper working capital, be paid quarterly to the county and city.

Note 10. Law Enforcement and Alcohol Education Expenses

The ABC Board is required by law to expend at least 5% of its profits for law enforcement and not less than 7% for alcohol education (alcohol education requirements follows local enabling act). Profits are defined by law for these calculations as change in net assets before law enforcement and educational expenses, less the 3 1/2% markup provided in G.S.18B-804(b)(5) and the bottle charge provided for in G.S.18B-804(b)(6b).

Profit before distributions:	\$ X,XXX
Less: 3 1/2 % tax and bottle charge	XXX
Profit subject to expense percentages:	X,XXX
Law enforcement expenditures	X,XXX
-actual percentage of profit	X%

Provision for alcohol education and rehabilitation
-actual percentage of profit

X,XXX
X%

Note 11. Disbursement of Taxes Included in Selling Price

A state excise tax, at the rate of 25% effective February 1, 2002, on the retail (net sales) price is charged monthly on liquor sales (excluding wine sales). Transactions for this account for the year are summarized as follows:

Taxes payable 7/1/XXX3
Taxes collected during the year
Taxes remitted to Department of Revenue
Taxes payable 6/30/XXX4

The excise tax is computed in accordance with G.S. 18B-805(i).

The accrued North Carolina excise tax at June 30, XXX3 was remitted to the North Carolina Department of Revenue on July XX, XXX4.

A bottle charge of one cent on each bottle containing 50 milliliters or less and five cents on each bottle containing more than 50 milliliters is collected and distributed monthly to the county commissioners for alcohol education and rehabilitation. For the fiscal year, payments to the county were based on the following bottle sales:

Regular Bottles	XX,XXX	@ 5 cents	= \$XX,XXX
Mixed Beverage Bottles	X,XXX	@ 5 cents	= X,XXX
Miniature Bottles	XX,XXX	@ 1 cent	= XX,XXX

Total payment for the year = \$ XX,XXX

**** (Note to preparer – the break down of bottles sold is required) ****

A "mixed beverage tax" at the rate of \$20 per 4 liters is charged on the sale of liquor to be resold as mixed beverages. One-half of the mixed beverage tax is submitted monthly to the Department of Revenue. Five percent of the mixed beverage tax is submitted monthly to the Department of Human Resources.

The mixed beverage tax for the year was:

Department of Revenue (50%)	\$X,XXX
Department of Human Resources (5%)	XXX
Profit Retained (45%)	<u>X,XXX</u>

Total \$X,XXX

Note 12. Surcharge Collected

The total amount of surcharge collected for the fiscal year was \$X,XXX. (This is based on 80 cents per case effective May 1, 2001).

Note 13. Retail Outlets

The ABC Board operated with two retail outlets:

Store #1 - 131 Elm Street, Town

Gross Sales \$X,XXX Change in Net Assets \$X,XXX

Store #2 - 413 Wayne Street, Town

Gross Sales \$X,XXX Change in Net Assets \$X,XXX

Note 14. Working Capital

The ABC Board is required by the Alcoholic Beverage Control Commission rule [.0902] to set its working capital requirements at not less than two weeks average gross sales of the last fiscal year. (Gross sales are gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2), (3), and (4)).

The board's position on this requirement is as follows:

Minimum Amount
Maximum Amount
Actual Amount

The board has met (or not met) the minimum amount of working capital

(Note to preparer: If the board exceeds the maximum amount, specify if these funds will be distributed or placed in a capital improvements account).

Note 15. Breakage Expense

Breakage expense absorbed by the Board for the year was \$XXX.

(Note to preparer: This refers to internal expenses, not breakage charged off to the distillers.)

Note 16. Risk Management

The ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workmen's compensation and employee health coverage. The board also has liquor legal liability.

There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

**(The following schedules are information the
ABC Commission requires.)**

ABC Board
Schedule of Store Expenses
For the Years Ended June 30, XXX4
and June 30, XXX3

	<u>XXX4</u>	<u>XXX3</u>
Salaries		
Payroll Taxes		
Employees' retirement		
Group Insurance		
Cash (over or short)		
Repairs and maintenance - Buildings		
Repairs and maintenance - Equipment		
Utilities		
Telephone		
Insurance		
Store Supplies		
License/taxes		
Janitorial Service		
Maintenance Agreements		
Burglar Alarm		
Miscellaneous		
Breakage		
 Total Store Expenses		

ABC Board
Schedule of Administrative Expenses
For the Years Ended June 30, XXX4
and June 30, XXX3

	<u>XXX4</u>	<u>XXX3</u>
Salaries		
Payroll Taxes		
Employees' Retirement		
Employee Travel		
Group Insurance		
Repairs and Maintenance - Equipment		
Utilities		
Telephone		
Insurance and Bonding		
Office Supplies		
Maintenance Agreements		
Postage		
Professional Services		
Dues and Subscriptions		
Board Member Expenses (fees and travel)		
Data Processing		
Vehicle Expenses		
Miscellaneous		
 Total Administrative Expenses		

ABC Board
Schedule of Warehouse Expenses
For the Years Ended June 30, XXX4
and June 30, XXX3

	<u>XXX4</u>	<u>XXX3</u>
Salaries		
Payroll Taxes		
Employees' Retirement		
Group Insurance		
Repairs and Maintenance - Building		
Repairs and Maintenance - Equipment		
Telephone		
Insurance - General		
Delivery Expense		
Office Supplies		
Vehicle Expense		
Miscellaneous		
Breakage		
 Total Warehouse Expense		